

Due Diligence Checklist for Business Sellers

How Buyers Evaluate Your Business, and
What You Need for a Smooth Transaction

THE TURN BUSINESS ADVISORS





Welcome

By the time a business reaches due diligence, most of the big decisions have already been made.

A buyer has been identified, terms have been discussed, and there's a general sense that the deal is moving forward. But this is often where things begin to shift.

Due diligence is where everything gets reviewed, tested, and validated—not just discussed at a high level.

It's where:

- Financials are verified
- Risks are uncovered
- Assumptions are challenged

This guide is designed to give you a clear, practical view of what buyers are actually looking for during that process—and where deals tend to run into friction.

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IMPORTANT: Before Reading

Many sellers think due diligence is just a final step where documents are reviewed before closing.

At that point, the assumption is that the deal is largely done—terms are agreed upon, a buyer is in place, and due diligence is simply about confirming what's already been discussed.

But in reality, that's not how it plays out.

Due diligence is where buyers verify everything—and where many deals get renegotiated or fall apart entirely.

This is the phase where:

- Financials are validated
- Risks are uncovered
- Assumptions get challenged

What was previously presented at a high level is now being examined in detail. And that shift matters.

Because up until this point, much of the process is based on **representation**—how the business is described, positioned, and understood.

Due diligence is where that transitions into **verification**.

Numbers are tied back to source documents.

Relationships are evaluated more critically.

Operational realities become more visible.

And when something doesn't align—whether it's financial inconsistencies, undocumented assumptions, or overlooked risks—it doesn't just raise questions. It changes the conversation.

In some cases, that leads to renegotiation.

In others, it leads to hesitation—or the deal falling apart altogether.

It's not just about having the information—it's about how that information holds up under scrutiny.

Understanding that shift is what turns due diligence from a reactive phase into something you can actually prepare for ahead of time.



DUE DILIGENCE Checklist

CATEGORY 1 - FINANCIAL DOCUMENTATION

- Profit & Loss Statement (last 3 years, minimum)
- Trailing 12 Month (TTM) & Year to Date (YTD) P&Ls
- Balance Sheet (year-end & monthly, last 3 years)
- Business Tax Returns (last 3 years, minimum)
- Personal Tax Return - Schedule C/K1 Only (last 3 years, minimum)
- Add-Back Sheet (detailed breakdown + support)
- Accounts Receivable (AR) Aging report (if applicable)
- Accounts Payable (AP) Aging report (if applicable)
- Payroll Report (including owner compensation)
- Bank Statements (last 24-36 months)

CATEGORY 2 - OPERATIONS

- Standard Operating Procedures (SOPs) by Role & Activity
 - Overview of Day-to-Day Operation (including roles involved)
 - Vendor List (with Key Supplier Relationships)
 - Inventory List (if applicable)
 - Softwares Used (with How To's)
 - Equipment & Asset List (if applicable)
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CATEGORY 3 - EMPLOYEES

- Organization Chart (Org Chart)
- Employee List (with roles, responsibilities, and tenure)
- Compensation Structure (general for role & for each employee)
- Identification of Key Employees and Key Roles

CATEGORY 4 - CUSTOMERS & REVENUE

- Customer Concentration Breakdown (including % of Revenue over 5%)
- Customer Contracts & Service Agreements
- Revenue Breakdown by Service/Product
- Customer Retention/Repeat Customer Data (if available)
- Pipeline or Backlog (if applicable)

CATEGORY 5 - LEGAL & COMPLIANCE

- Business Licenses & Registrations
- Lease Agreements (if applicable)
- Insurance Policies
- Outstanding Legal Matters/Disputes

CATEGORY 6 - MISC

- Owner Responsibilities & Involvement (day-to-day need vs off hours)
 - Transition Expectations Post Sale
 - Training/Handoff Plan
 - Growth Opportunities/Expansion Pipeline
 - Known Risks or Operational Dependencencies
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BEHIND THE CHECKLIST: Why This Matters

The checklist shows what buyers ask for.

What it doesn't show is how that information gets interpreted once it's reviewed.

And that's where deals start to move.

FINANCIALS - WHERE DEALS GET REWORKED

On the surface, financials seem straightforward.

You provide your P&Ls, explain your add-backs, and arrive at a number that reflects the business's earnings.

But during due diligence, those numbers don't just get reviewed—they get pressure-tested.

Add-backs are one of the most common areas where this happens.

Expenses that feel clearly discretionary to an owner—personal expenses, one-time costs, or non-recurring items—are evaluated more critically by a buyer and often by a lender as well.

Some adjustments hold.
Some get reduced.
Some get removed entirely.

What an owner considers discretionary isn't always what a buyer—or lender—will accept.

And when those adjustments change, the valuation doesn't just shift—it often gets recalculated.

CUSTOMER CONCENTRATION - THE SILENT DEAL KILLER

From an owner's perspective, having strong, long-term customers can feel like stability.

From a buyer's perspective, concentration introduces risk.

If a meaningful portion of revenue is tied to one or a small number of customers, the question becomes:

What happens if that relationship changes?

Even if those customers have been consistent for years, buyers still have to underwrite what happens if they're not.

Even strong performance can be discounted if too much revenue is tied to too few relationships.

This is one of the most common areas where otherwise strong businesses get re-evaluated during diligence.

OWNER DEPENDENCY - THE TRANSFER PROBLEM

Many businesses are built around the owner.

They manage key relationships, make critical decisions, and often serve as the central point of accountability.

That works well while they're running it.

But during a transaction, the question shifts:

What does this business look like without them?

If the business relies heavily on you, the buyer has to underwrite their ability to replace you—which introduces risk.

That risk can show up in different ways:

- More conservative valuation
- Increased transition requirements
- Additional deal structure (earnouts, holdbacks, etc.)

This is one of the most consistent friction points in small to mid-sized business sales.

EMPLOYEES - THE RETENTION QUESTION

On paper, a strong team is an asset.

But during due diligence, buyers look beyond who is there—they look at whether those people will stay.

If key employees are critical to operations, relationships, or continuity, buyers begin to ask:

What happens if they leave?

Are there incentives to retain them?

How dependent is the business on specific individuals?

Even when a team is strong, uncertainty around retention introduces risk.

And like other risks, that uncertainty doesn't get ignored—it gets factored into how the deal is structured and valued.

DOCUMENTATION GAPS - WHERE CONFIDENCE DROPS

Most issues in due diligence don't come from what's known—they come from what's unclear.

Missing documentation, incomplete records, or inconsistencies between what was presented and what's verified all create the same outcome:

Uncertainty.

And in a transaction, uncertainty has a very specific effect.

Uncertainty doesn't just slow deals down—it often changes how buyers value the business.

Because when something can't be clearly verified, buyers tend to default to more conservative assumptions.

That can show up as:

- Lower valuation
- More cautious deal structure
- Extended diligence timelines

Across all of these areas, the pattern is the same:

What feels normal inside the business can look very different when viewed from the outside—especially under scrutiny.

And that's where preparation becomes the difference between a smooth process and a difficult one.

Key Points

- ✓ Due diligence doesn't just review your business—it reinterprets it, and that's where deals start to shift.
 - ✓ Areas like add-backs, customer concentration, owner dependency, and documentation gaps often introduce risk—and risk gets priced in.
 - ✓ What feels normal inside the business can look very different under scrutiny, and that difference is where valuation, structure, and outcomes change.
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WHAT A “SMOOTH” Diligence Looks Like

By the time a business reaches due diligence, most of the major pieces are already in motion.

But how that phase feels—for both the buyer and the seller—can vary significantly depending on how prepared the business is.

In a smooth diligence process, the experience is noticeably different.

Information is organized and easy to access.

Financials are consistent and tie back clearly to source documents.

Questions are anticipated and answered directly.

There are few, if any, surprises.

Instead of slowing the process down, diligence moves it forward.

Buyers spend less time trying to reconcile inconsistencies and more time confirming what they've already been told. That builds confidence—and confidence is what keeps deals progressing.

The best diligence processes don't feel like investigations—they feel like confirmations.

That doesn't mean there are no questions. Every deal involves scrutiny. But when the business is well-prepared, those questions tend to be clarifying rather than corrective.

And that distinction matters.

Because when diligence feels like confirmation, it reinforces the original valuation and structure.

When it feels like investigation, it often leads to adjustments.

Key Points

- ✓ A smooth diligence process isn't about fewer questions—it's about being prepared to answer them clearly and confidently.
 - ✓ When information is organized and consistent, diligence builds confidence instead of slowing the deal down.
 - ✓ The difference between confirmation and investigation often determines whether valuation holds—or gets adjusted.
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Next Steps...

If you're thinking about selling, due diligence isn't something that only matters at the end—it's something that can be prepared for well in advance.

Preparing for due diligence ahead of time can significantly reduce risk and improve how your business is perceived when it's evaluated.

It allows you to identify gaps early, strengthen how your business is presented, and move through the process with more confidence when the time comes.

If helpful, we can walk through what this would look like for your business and where there may be gaps.



Dylan



Steve

Do You Need More Help?

[Get Your Valuation](#)

This is a no pressure, exploratory call to understand your situation, your business, and what you're looking for.

